BILL # HB 2352 **TITLE:** community colleges; policy clean-up

SPONSOR: Gray **STATUS:** As Amended by House Education

REQUESTED BY: House **PREPARED BY:** Jill Young

	FISCAL YEAR		
	2003	**2004**	**2005**
EXPENDITURES			
General Fund	$-0-	See Below	

FISCAL ANALYSIS

Description

The bill makes the following changes to community colleges statutes:

1) Allows community colleges to use books or publications of a sectarian, partisan or denominational character as textbooks as long as they are not used to endorse or promote a religion or sect. Currently community colleges are not allowed to use such materials as textbooks.
2) Consolidates language relating to the districts' ability to enter into lease or lease-purchase agreements. The bill also removes the 15-year term limit on lease or lease-purchase agreements and replaces the prior $2.5 million in any one year or $15 million in the aggregate limit on lease or lease-purchase agreements. Any lease or lease-purchase agreements would now count against the districts' constitutional limit against indebtedness of 15% of their secondary net assessed value.
3) Ties community college Operating and Capital Outlay State Aid to the Proposition 301 voter approved 2% inflation adjustment requirement for common and high school districts, subject to legislative appropriation. Currently, the community college state aid formulas are not tied to a defined inflation rate due an outdated statutory reference.
4) Consolidates community college reporting requirements for workforce development plans and expenditures to 1 report by April 1 of each year from 2 reports each year and eliminates the review requirement of the Joint Legislative Budget Committee.
5) Increases the portion of community college bonds that can be issued for classrooms from 25% or $1 million to 50% or $2 million of the total bonds for any institution.

Estimated Impact

The bill's primary potential General Fund impact is due to the provision linking the funding formula to the Proposition 301 inflation adjustment. If the formula were adjusted for inflation, the cost would be $2.5 million. Any inflation funding, however, continues to be subject to legislative appropriation.

This bill could also impact local community college indebtedness by increasing districts' lease or lease-purchase capacity and increasing the portion of revenue bonds that can be issued for classrooms, thereby increasing their revenue bonding capacity, depending on the needs of each individual district.

(Continued)

Analysis

The community college districts receive funding through the following 3 statutory formulas:

- Operating State Aid provides community college districts with funds for continuing operations and maintenance. The Operating State Aid formula in statute adds funding to each district's current year Operating State Aid appropriation for enrollment growth only.
- Capital Outlay State Aid provides community college districts with funds for capital land, buildings, and equipment needs. The Capital Outlay State Aid formula provides per capita funding to districts based on the district's size. The formula multiplies $210/FTSE for districts with 5,000 or less FTSE or $160/FTSE for districts with greater than 5,000 FTSE.
- Equalization Aid provides additional state aid to qualifying community college districts whose tax base is insufficient to provide adequate funding for continuing operations and maintenance. Equalization Aid is paid to districts with property tax bases that are less than the minimum assessed value, which is grown each year by the average increase in actual assessed valuation for Arizona's rural districts.

The inflation adjustments in this bill affect the Operating and Capital Outlay State Aid formulas. The calculation below delineates the cost of funding 2% inflation within the FY 2004 Operating and Capital State Aid formulas, assuming that growth funding would be provided to the community colleges.

If the 2% inflation adjustment were funded within the Operating State Aid formula, the increase would first be applied to the FY 2003 appropriation increasing it by $2,035,000. Then the growth factor is calculated by dividing the inflation adjusted base of $103,784,300 by the most recent audited FTSE (FY 2002 in this case). The second inflation adjustment results in a $20 increase in the growth factor from $992 if there was no inflation adjustment to $1,012 if the 2% inflation adjustment was funded. This would result in a $101,100 General Fund impact. The General Fund fiscal impact of $2,136,100 occurs both with the 2% increase ($2,035,000) and potentially with the higher growth factor for new FTSE ($101,100). The steps outlined above would occur each year if inflation and growth were fully funded, thereby increasing the cost of the bill each year.

If the 2% inflation adjustment were funded within the Capital Outlay State Aid formula, the increase would be applied to the per capita funding level. Districts with less than 5,000 FTSE would receive $214.20 per FTSE instead of the current rate of $210 and districts with greater than 5,000 FTSE would receive $163.20 per FTSE instead of the current rate of $160. If applied to the FY 2004 funding levels, the relative increase for 2% inflation would be $352,100. The formula per capita rate would continue to grow annually if inflation was fully funded, thereby increasing the cost of this bill each year.

Local Government Impact

This bill could impact local community college district indebtedness. The statutory changes relating to lease or lease-purchase agreements eliminates the 15-year term limit on lease or lease-purchase agreements and replaces the prior $2.5 million in any one year or $15 million in aggregate limit on lease or lease-purchase agreements with the districts' constitutional limit against indebtedness of 15% of their secondary net assessed value. None of the 10 districts are currently maximizing their 15% constitutional debt limit.

The statutory change that increases the portion of community college revenue bonds that can be issued for classrooms from 25% or $1 million to 50% or $2 million of the total outstanding bonds for any institution. This provision has the potential to increase the indebtedness of community college districts, depending on the needs of the each district. Community college districts do not have a statutory or constitutional limit on their capacity to issue revenue bonds. Revenue bonds are repaid by income or revenue from tuitions, fees, rentals and other charges.

The consolidation of workforce development plans from 2 reports to 1 report annually would reduce the workload of community college district staff.

3/21/03